



MEMORANDUM

DATE: September 8, 2003

TO: The Honorable Mayor and Council
Downtown and Rio Nuevo
Subcommittee Members

FROM: 
James Keene
City Manager

SUBJECT: New Market Tax Credits Update

At the February 24, 2003 Study Session, Mayor and Council approved the issuance of a Request for Proposal to solicit a Rio Nuevo Development Corporation. The RFP process was concluded at the June 11, 2003 meeting when the Rio Nuevo MFD Board of Directors unanimously approved the recommendation of the City's Procurement Director to hire Business Development Finance Corporation (BDFC).

BDFC has formed the Tucson New Markets Investment Corporation and an application has been submitted to the Department of the Treasury for certification as a Community Development Entity (CDE). The Corporation is a 501(c)3. The Board membership was configured to meet CDE specifications for "Low Income Community" representation and to represent the type of community knowledge and professional management experience that was recommended in the application. The members are Ruben Suarez, Carlota Flores, Joel Valdez, Emily Nottingham and Scott Douthitt. The CDE certification application was due August 29. It may be three to four months before we have notice of certification.

The New Markets Tax Credit (NMTC) application is due September 30. Only 501(c)3 corporations with either an established or pending CDE certification are qualified to apply.

The NMTC staff representing Economic Development, Rio Nuevo, City Manager's office, and BDFC met with consultants BDFC hired to assist with preparation of the Tax Credit application. The consultant advice is that specific project information is not necessary. The critical deliverable on the application is to write a compelling story of a City ripe for revitalization, with a stream of project opportunities for locating businesses in specific census tracts and employing residents from Low Income Communities (again specific to census tracts). The qualifying census tracts closely align with the Empowerment Zone boundaries.

The Honorable Mayor and Council
Downtown and Rio Nuevo
Subcommittee Members
September 8, 2003
Page 2

The NMTC application must demonstrate available funding from the private sector. The NMTC team is contacting national financial underwriters, regional and local banks and local developers for letters of support. These contacts create an opportunity to explain the program and brainstorm with the private sector to assess viable projects that will place Tucson among the top applications.

The profile for a New Markets Tax Credit investor is typically institutional. For that reason, the national underwriters (Piper Jaffray; Bear Stearns) create investment funds for the New Markets Tax Credit program. Very few individual investors can use these tax credits due to alternative minimum tax provisions.

Notification awards for the New Markets Tax Credit program is expected in March, 2004. At that time, two to three additional for-profit CDEs will be formed for distribution of the tax credits. (This procedure is required by the Department of the Treasury). The tax credit provided to the investor is claimed over a seven year period. In each of the first three years, the investor receives a tax credit equal to 5% of their total investment. For the next four years, the value of the tax credit is 6% annually.

JK:KL:vm